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MONEYBEAT

## Dollar-Backed Digital Currency Aims to Fix Bitcoin's Volatility Dilemma



By

*Michael J. Casey*

Jul 8, 2014 5:41 pm ET



REUTERS

A Santa Monica-based startup says it has produced the first dollar-backed digital currency. If successful, this new currency could exploit bitcoin's inexpensive and direct payments network, while avoiding its volatility.

The startup, Realcoin, is set to announce that its digital currency, dubbed realcoins, will be backed one-to-one by a fully auditable reserve of dollars.

The bearer of these realcoins will have the right to redeem them for U.S. currency. That should make realcoin much more stable than bitcoin, which saw an 86-fold increase over the first 11 months of last year only to succumb to a 70% decline in the following

four months. Such volatility has detracted from bitcoin's appeal as a payments mechanism.

Founded by Brock Pierce, a former Disney child actor who is now a prolific bitcoin investor, along with ad industry entrepreneur Reeve Collins and software engineer Craig Sellars, Realcoin is the latest in a wave of so-called Bitcoin 2.0 ventures, which use bitcoin's computer infrastructure to exchange property and execute contracts without third-party intermediaries. These projects open up bitcoin's decentralized, peer-to-peer network to a variety of commercial uses beyond just transactions denominated in bitcoins.

"Unfortunately, there has been confusion for people between the currency called bitcoin and the technology called bitcoin, when they are distinctly different things," said Mr. Collins, Realcoin's Chief Executive Officer. In effect "we are digitizing the dollar and giving that digital dollar access to the bitcoin blockchain."

The blockchain is a publicly shared ledger of transactions maintained by a decentralized network of computer owners known as miners, whose machines keep it updated in return for periodic rewards in bitcoin. The system was initially designed to protect the integrity of the currency, ensuring bitcoins couldn't be double-spent, or counterfeited, thus obviating the need for transactions to pass through banks and other trusted third-party intermediaries.

A few years after bitcoin's 2009 launch, however, Bitcoin 2.0 developers are creating programs that used the blockchain's method of validating transactions for different legal arrangements. Thus digitized property could be exchanged, commercial deals could be struck and contracts could be executed, all without engaging fee-charging middlemen.

Realcoin will use a Bitcoin 2.0 software protocol known as Mastercoin, which takes digitized information about particular assets or contracts and embeds it into bitcoin transactions. In this case, that data will define the rights attached to realcoins. Realcoin founder Mr. Sellars is the chief technology officer of the Mastercoin Foundation.

To ensure realcoins retain their value at one dollar, the firm will maintain a real-time record of its dollar-based reserves, all held in conservative investments, and will subject that record to the blockchain's authenticating system, Mr. Collins said. Realcoins will be introduced or removed from circulation depending on whether dollars are being added or redeemed.

Mr. Collins said Realcoin has signed with a major banking partner and is seeking deals with other banks, digital-currency exchanges and ATM providers to become “gateways” for buying, trading or redeeming realcoins around the world. In creating a global network for people to cheaply and quickly exchange claims on the world’s main reserve currency, it could boost worldwide demand for dollars, he says.

Mr. Collins said Realcoin’s lawyers are working to obtain U.S. money transmitter licenses from those states that require them and that it also plans to issue digital currencies backed by euros and yen.

It’s unclear how realcoin will be received in countries with capital controls such as China and Argentina, whose citizens could use it to circumvent limits on foreign currency.

Realcoin might also attract scorn from bitcoin’s libertarian supporters, who see the independent digital currency as a successor to, not a facilitator of, government-controlled currencies.

Asked about such a reaction, Realcoin founder Mr. Pierce said, “I’m not selling any of my bitcoins. I’m trying to build a host of businesses that are taking advantage of this new emerging payments protocol as well as the currency.”

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